



**WORKING
CAPITAL
FUND**

U.S. DEPARTMENT OF ENERGY

Fiscal Year 1999 Third Quarter Report

July 1999

WORKING CAPITAL FUND

FY 1999 Third Quarter Report: Summary

I. Relation of Earnings to Expenses

- Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type transactions).
- Overall, the Fund had net earnings of about \$1 million for the first three quarters of FY 1999, on \$60 million in earnings (Table I). This compares to \$1.7 million in net earnings for the first three quarters of FY 1998.
- The one variance of concern is for Telephones, where the rate structure does not accommodate the annual depreciation costs of \$0.7 million.

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TABLE I	FY 1999 Third Quarter Business Results			
	(in Millions)			
<u>Business Line</u>	Third Quarter Earnings	Third Quarter Business Expenses	Third Quarter Net	
Supplies	\$2.2	\$2.1	\$0.1	
Mail	\$1.2	\$1.1	\$0.1	
Copying	\$1.8	\$1.6	\$0.2	
Printing/Graphics	\$2.4	\$2.1	\$0.3	
Building Occupancy	\$42.2	\$41.6	\$0.6	
Electronic Services	\$0.0	\$0.0	\$0.0	
Telephones	\$4.9	\$5.6	(\$0.8)	
Desktop	\$1.2	\$1.2	\$0.1	
Network	\$2.3	\$2.2	\$0.1	
Contract Closeout	\$0.4	\$0.4	\$0.0	
Payroll & Personnel	\$1.5	\$1.3	\$0.2	
EIS	\$0.1	\$0.0	\$0.0	
TOTAL	\$60.2	\$59.3	\$1.0	

II. Relation of Customer Payments to Anticipated Customer Billings

- " Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund.
- " By June, we had collected 98% of the estimated \$81.7 million in FY 1999 annual revenues. This is in line with the collection rate for FY 1998, and a further \$1 million was received in July, after the end of the quarter. Aggregate collections do not appear to be a problem in FY 1999. (Table II)
- " Staff will contact customer organizations to ensure full collection in the coming quarter.

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TABLE II	FY 1999 Third Quarter Business Results			
	(in Millions)			
<u>Business Line</u>	Advances as of Third Quarter	Anticipated Full Year	% Collected	
Supplies	\$3.0	\$3.0	100%	
Mail	\$2.0	\$2.0	100%	
Copying	\$2.8	\$2.8	100%	
Printing/Graphics	\$3.8	\$3.8	100%	
Building Occupancy	\$54.5	\$56.2	97%	
Electronic Services				
Telephones	\$6.3	\$6.3	99%	
Desktop	\$1.5	\$1.7	93%	
Network	\$3.0	\$3.1	99%	
Contract Closeout	\$0.7	\$0.7	100%	
Payroll & Personnel	\$2.0	\$2.1	99%	
EIS	\$0.1	\$0.1	82%	
TOTAL	\$79.7	\$81.7	98%	

III. Relation of Payments to Obligations by Business Line

- o There have been no violations of administrative control of funds procedures by WCF business lines.
- o As shown in Table III, funds available exceeded obligations by nearly \$20 million by the end of the third quarter. The rate of obligation is within 1% of FY 1998 and is on track with annualized estimates.

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TABLE III	FY 1999 Third Quarter Business Results (in Millions)					
<u>Business Line</u>	Unobligated Balance 10/99	Current Year Customer Advances	Total Available	Third Quarter Obligations	Advances Remaining to be Obligated	
Supplies	\$0.0	\$3.0	\$3.0	\$2.2	\$0.9	
Mail	\$0.0	\$2.0	\$2.0	\$0.7	\$1.3	
Copying	\$0.0	\$2.8	\$2.8	\$1.8	\$1.0	
Printing/Graphics	\$0.0	\$3.8	\$3.8	\$1.6	\$2.2	
Building Occupancy	\$0.0	\$54.5	\$54.5	\$42.0	\$12.5	
Electronic Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Telephones	\$0.0	\$6.3	\$6.3	\$5.6	\$0.6	
Desktop	\$0.0	\$1.5	\$1.5	\$1.2	\$0.3	
Network	\$0.0	\$3.0	\$3.0	\$2.9	\$0.2	
Contract Closeout	\$0.0	\$0.7	\$0.7	\$0.3	\$0.4	
Payroll & Personnel	\$0.0	\$2.0	\$2.0	\$1.9	\$0.2	
EIS	\$0.0	\$0.1	\$0.1	\$0.0	\$0.1	
TOTAL	\$0.0	\$79.7	\$79.7	\$60.1	\$19.6	

IV. Changes in Budget Estimates by Business Line and Customer

- In FY 1999, the accuracy of the WCF budget estimates appears to have improved over FY 1998. As set forth in the table below, there has been less than 1% change in the aggregate FY 1999 estimates since they were developed in June of 1997.

FY 1999 Budget Estimates for WCF Businesses¹		
Date	Process	FY 1999 Billing Estimate (\$Millions)
June 1997	FY99 Corporate Review	\$80.8
December 1997	FY99 Congressional Budget	\$80.7
May 1998	FY 2000 Corporate Review	\$80.9
December 1998	FY 2000 Congressional Budget	\$80.5
April 1999	March bill	\$80.3
July 1999	June bill	\$80.2

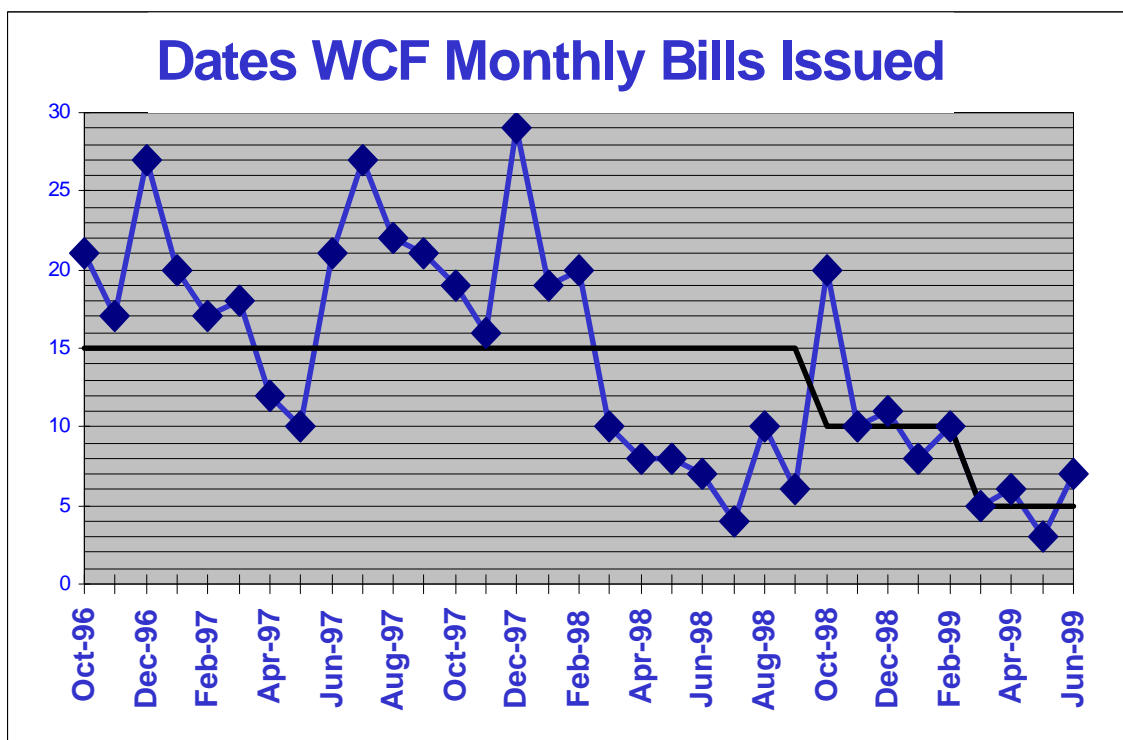
- There was more fluctuation in the estimates at the individual customer level than in the aggregate estimate, as discussed in the mid-year report, but this was due primarily to reorganization actions. We expect similar customer-level fluctuations in FY 2000, associated with ongoing reorganizations.
- V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.
- The Fund Manager does not anticipate the need for further pricing policy changes for FY 1999. However, two pricing policy issues bearing on FY 2000 were provided to the Board at its April 1999 meeting. As explained above, there is a continuing issue regarding the sufficiency of Telephone infrastructure billings to cover depreciation expenses. This does not pose an immediate cash flow problem, but it creates accounting losses and precludes the accumulation of cash in anticipation of replacement requirements.

¹ This analysis covers “continuing businesses” only; it omits the contract audit business that was removed from the Fund for FY 1998 and the Executive Information System business added to the Fund in FY 1999.

VI. Financial Management Systems Progress

New Working Capital Fund Billing System

- As shown in the following graph, following transition between systems and the start of a new fiscal year, we have resumed the progress toward issuance of the bill earlier in the month. Our original goal was to have the WCF bill out in paper form by the middle of the month following service delivery (top solid line). Our current 'stretch' goal is to issue the bill in the first five working days of the month after service delivery so that the costs are entered into DISCAS for each customer for the month of actual service delivery.
- For the March bill, we achieved the "stretch" goal for the first time under the new system, and as of the June bill, we had made the DISCAS entry deadline for four consecutive months.²



²The chart measures timeliness in calendar days, whereas actual DISCAS deadlines are in work days.

Inspector General Report Follow-On

- The House Energy and Water Appropriations Subcommittee has asked the DOE Inspector General to perform annual audits on the Fund. Audits were performed in 1997 and 1998, and follow-on actions have formed the basis for Working Capital Fund management improvement plans.

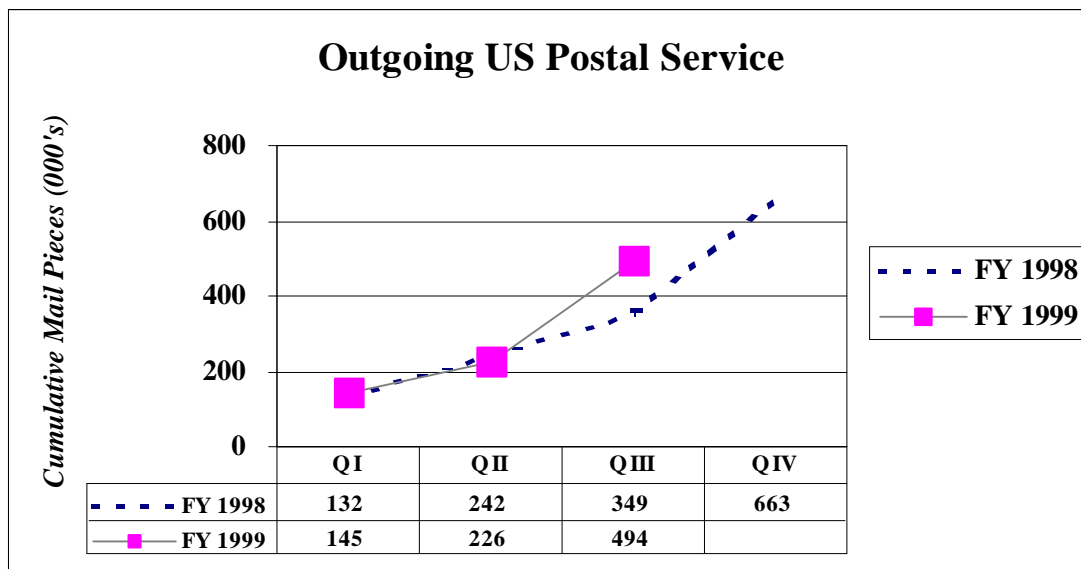
1997 IG Report: For the semiannual DARTS report for March 31, 1999, the Office of Management and Administration has certified the closure of all recommendations in the 1997 IG report (CR-B-98-01).

1998 IG Report: No changes since the March 31, 1999 DARTS report.

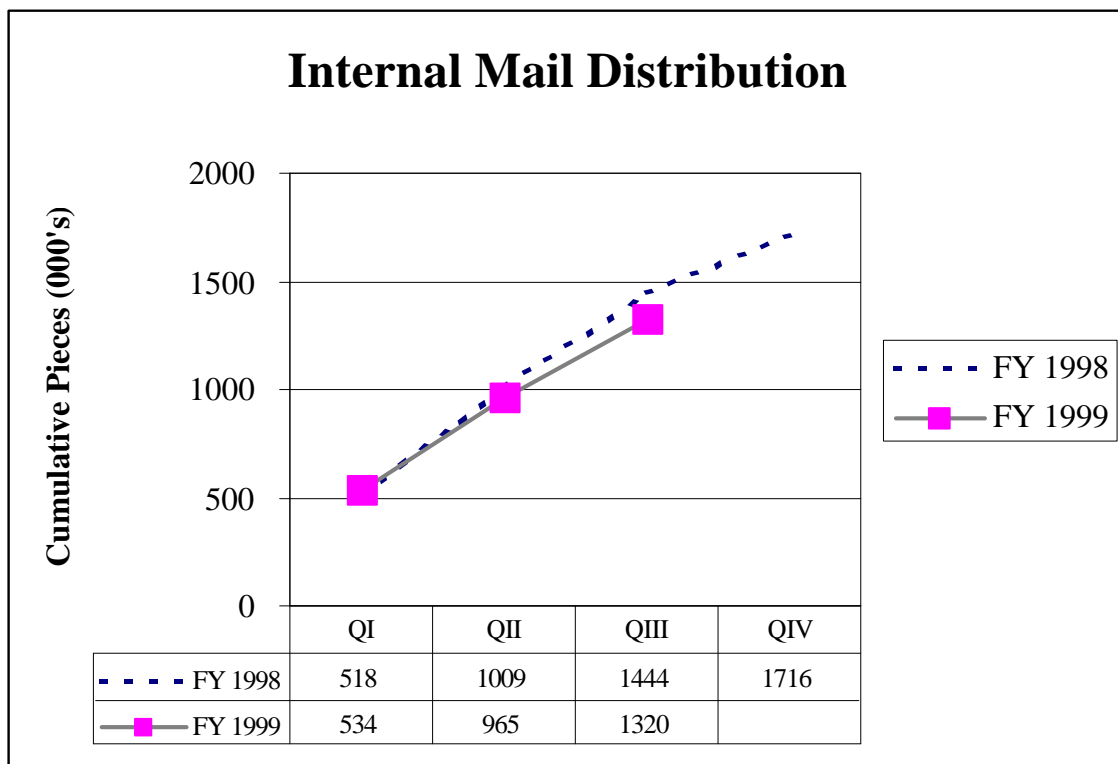
1999 IG Report: Fund officials have met with the auditors, who completed field work. However, no recommendation have been received.

VII. Operating Metrics

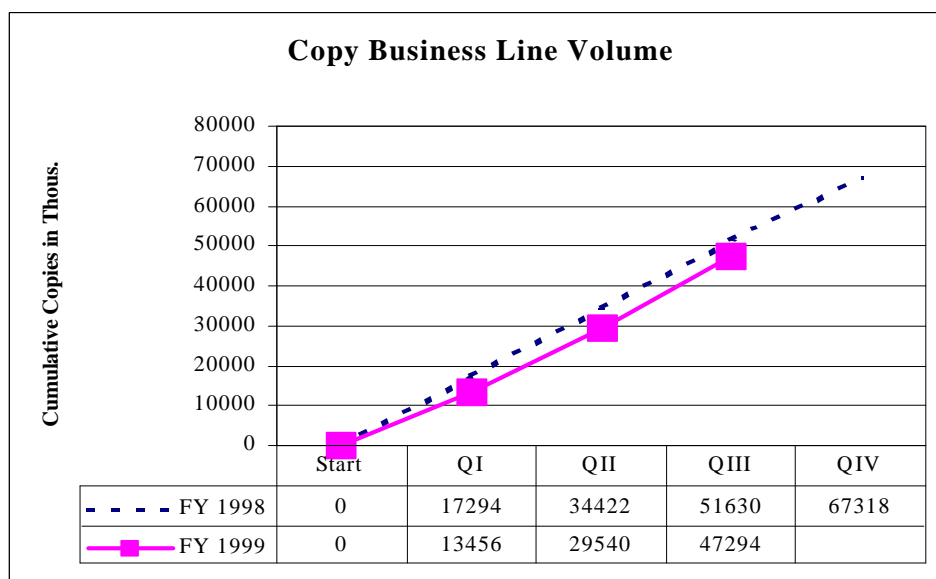
Mail: Outgoing USPS mail usage increased substantially in the third quarter and is above the FY 1998 quarterly pattern. However, it is not inconsistent with the annual pattern for last year.



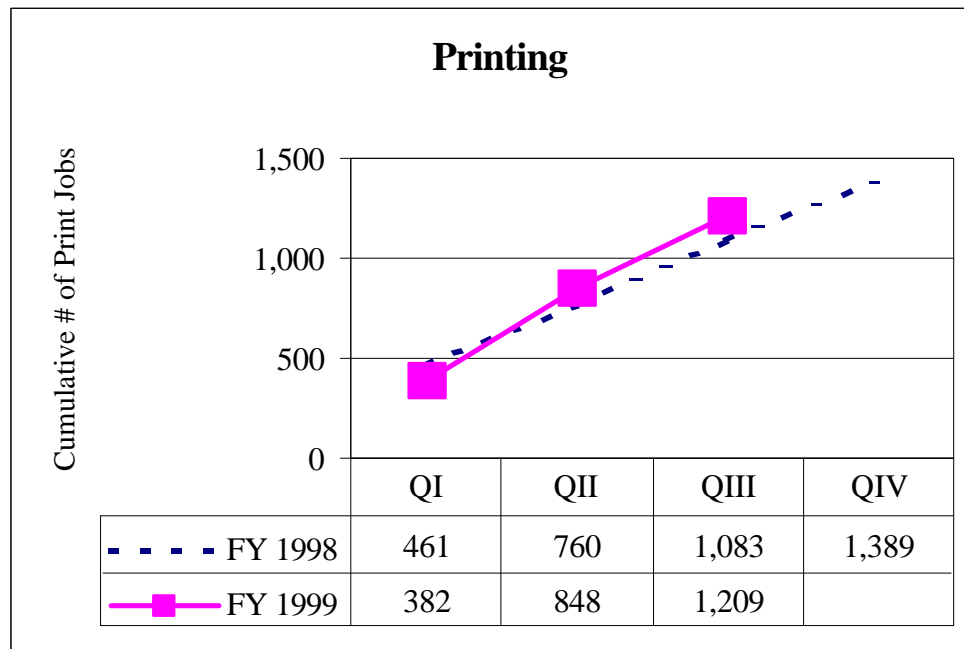
Internal mail distribution is continuing to run approximately 10% below FY 1998 levels, as depicted in the graph below.



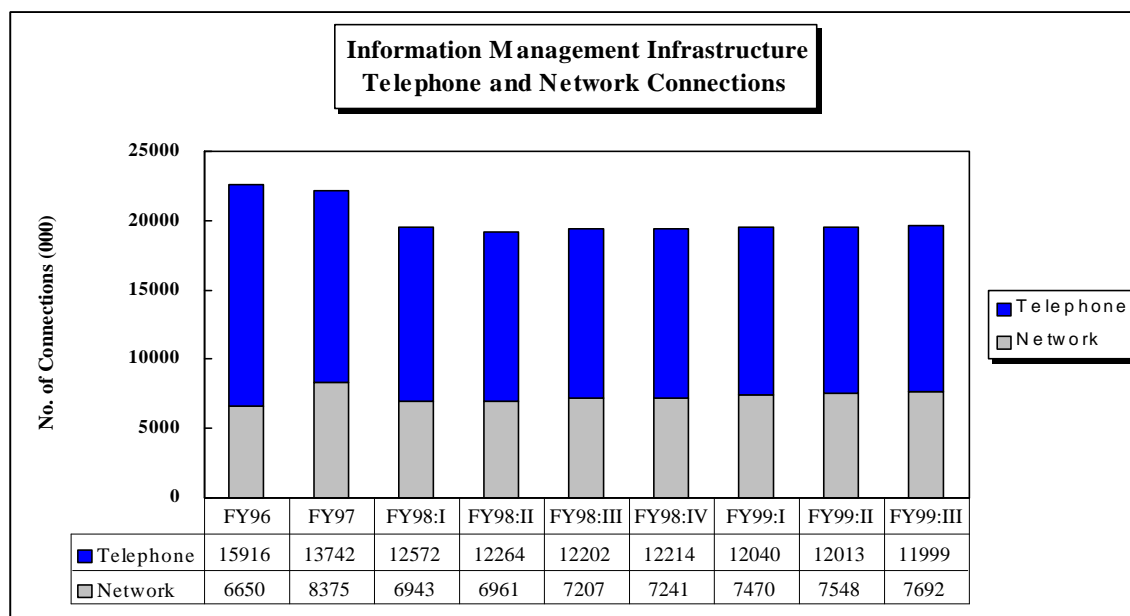
Copying: The copy volume in FY 1999 continues to run below FY 1998, but the percentage reduction has narrowed from earlier time periods.



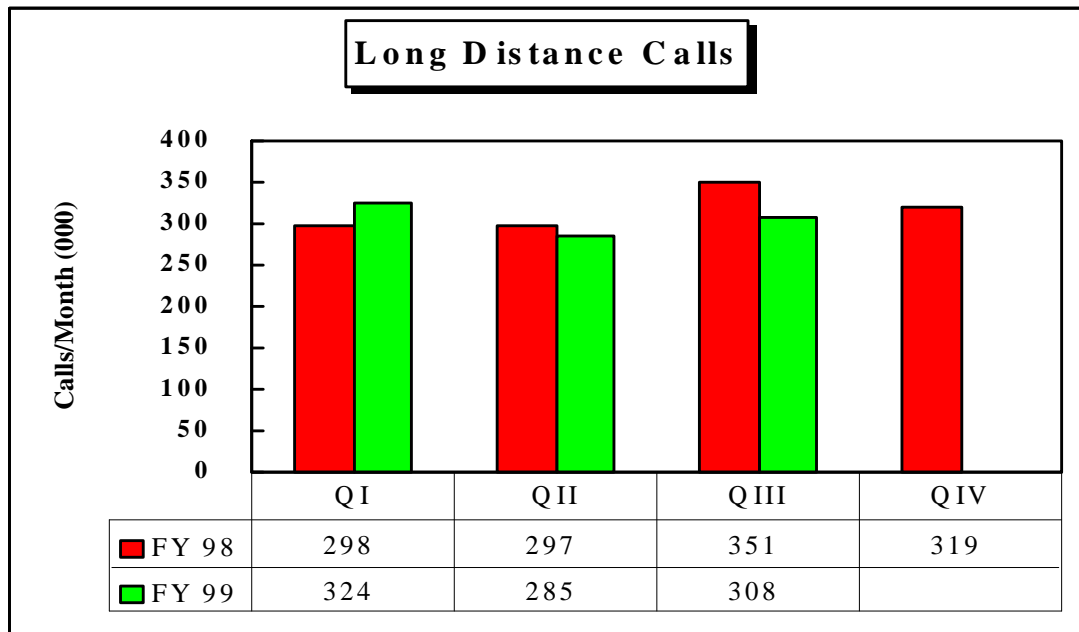
Printing: The number of total print jobs is running approximately 10% above the same period in FY 1998.



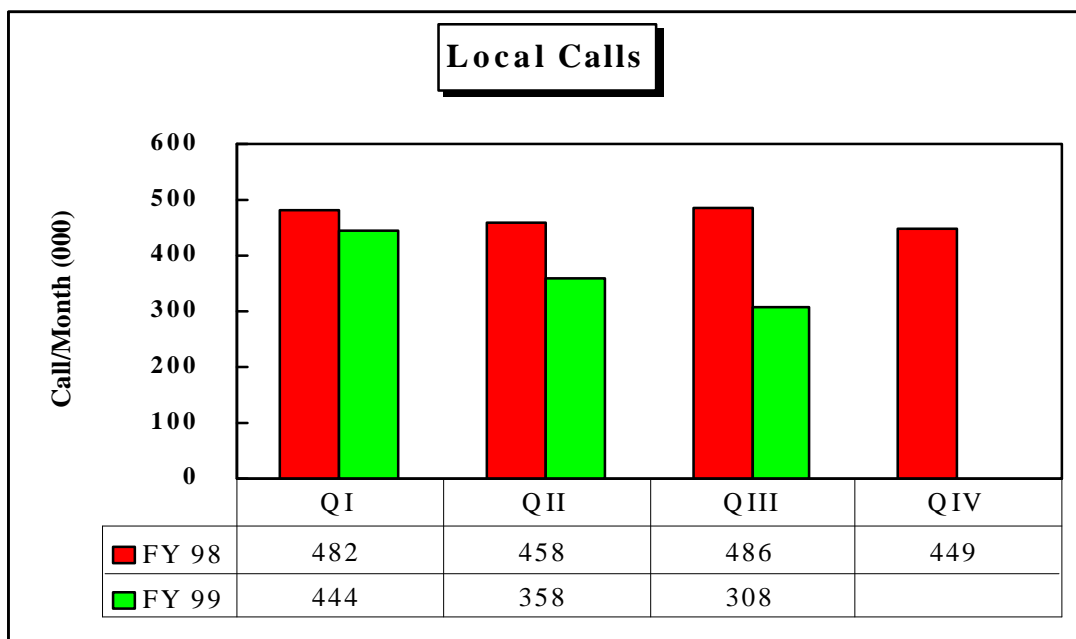
Information Management: The number of telephone connections continued to decrease slightly, whereas the number of LAN connections continued to increase during the third quarter. However, these infrastructure variables have stabilized; there has been less than a 2% change in total connections in the past 12 months.



Average monthly long distance calls from Headquarters continue to run at a rate of approximately 300,000 per month. This rate decreased from 1998 in the second and third quarters.



Local calling (dial 9) continued to decline in the third quarter and is running well below FY 1998. The number of local and long distance calls became equal during the quarter.



Contract Closeout: The inventory of instruments subject to closeout continued a cyclical pattern of reduction and reached the lowest “backlog” level since the Fund business was created. In addition to retiring instruments identified by customers, the business line pursued closeout of other instruments using FAR criteria. We expect the inventory to increase again next quarter in recognition of the number of instruments that became ready during the past year for close out. The estimated inventory on October 1, 1999 will be 950, which continues the secular decline since the Fund was created.

